WHAT IS HAPPENING TO COLLEGE AND UNIVERSITY INVESTMENTS AND INCOME?

By

J. HARVEY CAIN

19

AMERICAN COUNCIL ON EDUCATION STUDIES

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SERIES III. FINANCIAL ADVISORY SERVICE

The purpose of the Financial Advisory Service is to study problems of educational finance and to assist institutions and educational organizations in dealing with these problems. These objectives are being achieved through correspondence and personal visits with the officers of colleges and universities on problems confronting individual institutions, and through the publication of reports dealing with subjects of general interest to all institutions.

WHAT IS HAPPENING TO COLLEGE AND UNIVERSITY INVESTMENTS AND INCOME? is the nineteenth report in this series of the AMERICAN COUNCIL ON EDUCATION STUDIES.

FOREWORD

WHILE THE Financial Advisory Service is not a statistical agency, it has been carrying on, in view of the absence of such information from other sources, studies concerning the trends and status of endowment fund investments and income in the nation's colleges and universities. It hopes by these studies to provide information which will be of service to institutional boards, executives, and interested friends in problems relating to the management and development of such funds.

In spite of the very considerable change which has taken place with respect to invested funds and their income during the past few years, such funds continue to hold an important place in the financing of American higher education. An understanding of the problems relating to them, and of the experiences of others in their management, is a matter of material importance.

The present bulletin contains not only comparative factual material of the type included in its predecessors, but also presents some discussion of principles and policies involved in the handling of institutional investments.

The preparation of this bulletin was made possible largely through the cooperation of many business officers who kindly furnished its author the necessary data concerning their institutions. This assistance is deeply appreciated. The manuscript has been reviewed and its publication approved by the Advisory Committee of the Financial Advisory Service.

LLOYD MOREY
Chairman, Advisory Committee

April 1941

CONTENTS

I. INTRODUCTION

In April 1940 the Financial Advisory Service published a study of endowment investments and income covering the period 1926-39. This publication brought up to date previous studies which had been made in April 1937 and in November 1938. In the present publication there are presented such statistical data as have been collected for the fiscal year ended June 30, 1940; this material is compared with previous data, and accompanied by a discussion of some of the problems faced by college investment officers in the handling of their investments.

The present bulletin includes (1) data concerning a group of 45 privately administered colleges and universities (see List I) which have furnished information covering the fifteen-year period 1925-26 to 1939-40; and (2) data concerning the distribution by classes of investments of the 45 institutions and 75 others, a total of 120 institutions (see List III). The total endowment funds of the latter group amount to $1,263,653,056, or approximately 75 per cent of the total endowment funds held by institutions of higher education in the United States.

The purpose of this study is to show trends in the diversification policies of colleges and universities, and to indicate the trends in income yield from investments of various groups and sizes of institutions.

The group of 45 institutions which was included in the original study made by the Financial Advisory Service reports endowment funds amounting to $652,701,083. The holdings of this group represent about 38 per cent of the endowment funds of all colleges and universities in the United States.

Table I shows the principal in millions of dollars, the actual dollar income, and the rate of return for the fifteen-year period 1926 to 1940. Charts I, II, and III portray graphically the figures shown in Table I.

In Table II, this group of institutions is divided into three sec-

tions, those with endowments of over $15,000,000, those with endowments of from $2,000,000 to $15,000,000, and those with endowments of less than $2,000,000. For purposes of comparison, the number of institutions included in the group is limited to 39 (see List II); some of the 39 were not included in the first group of 45. The distribution of the portfolios of the 39 institutions, by classes of investments, is also shown in Table II.

II. COMPOSITE STUDY OF 120 INSTITUTIONS

In compliance with our request, 120 institutions (see List III) furnished data concerning their endowment funds and their investments for 1939-40. Of the 64 colleges and universities in the United States with endowments of more than $4,000,000, 61 are included in this study. Of the 59 other institutions included in the group of 120, 28 have endowments of more than $2,000,000, while 31 have endowments of less than $2,000,000.

These institutions are widely distributed in all sections of the country. In the East, where most of the endowed colleges and universities are located, there are 53 schools represented; 30 are in the central states, 27 in the southern states, and 10 in the western states. Table IV shows this geographical distribution and the type of control of these institutions. Table VII shows the total endowment funds of each of these four groups for a three-year period, the total endowment income received, and the average rate of return.

Changes in Principal of Funds

The endowment funds of the 120 institutions, after making allowance for the institutions added and dropped from the list, showed a net increase in principal funds of $25,191,000. This increase was due almost entirely to gifts and bequests to the large institutions: that is, those having endowments of more than $6,000,000. The actual increase in funds in the large institutions was much more, probably about $33,000,000, inasmuch as institutions in the group holding endowments of less than $6,000,000 reported a net decrease in funds of about $8,000,000, due in part to losses written off. It should not be inferred, however, that no losses were suffered by the large institutions.

Class of Investments

Table V shows the distribution of endowment funds according to class of investment and according to size of investment port-

folios. It gives the percentage of bonds, preferred stocks, common stocks, mortgages, real estate, cash, and so on, for portfolios of different sizes. Of the total investments shown in this table the holdings of bonds decreased 2.8 per cent for the year ended June 30, 1940, preferred stocks decreased 0.8 per cent, real estate 0.7 per cent. Common stocks increased 2.3 per cent, investments in institutional property 0.5 per cent, and cash on hand 1.5 per cent. It may be observed that institutions having endowments of less than $2,000,000 also have less invested in common stock, and that such investments progressively increase according to the size of the portfolios.

The Best Earnings Records and the Poorest

In Table VI is presented a comparison of the 20 institutions which had the best earnings records[1] with those which had the poorest records. The former group averaged 4.93 per cent, while the latter earned 2.98 per cent, a difference of 1.95 per cent. In preparing this table, one institution which earned an abnormally high rate was omitted; also, one which earned a very low rate was left out of the comparisons. The institution with the best record in the group earned 5.86 per cent, and the institution with the poorest record earned 2.30 per cent, a difference of 3.56 per cent. The reason for this wide variation is that the former institution apparently increased its common stock holdings when the market was low, while the latter invested a large portion of its funds in institutional property which is producing no income.

Maturities of Bonds

The distribution of maturities of bonds in the composite fund was as follows:

Bonds maturing in	
less than 10 years	34.0
in 10 to 20 years	31.9
after 20 years	34.9

[1] The use of the word "best" may not in some respects exactly describe the situation, because after all the real test of a list of securities is the punishment it can take in the months and years to come.

One institution had all its funds invested in the first group and another had 92 per cent so invested. One had 5 per cent and another only 9 per cent in this group.

On the other hand, one institution reported holding 100 per cent in bonds due after twenty years, and another 87.4 per cent. One reported as low as 3 per cent and another 10 per cent.

There is nothing to indicate whether or not the present distribution of the entire fund is the ideal pattern to follow. On the contrary, one group seems to favor purchasing short-term securities and another prefers to invest in long-term bonds.

Gains and Losses on Principal

Sixty-seven institutions reported their gains and losses for the year. These institutions held endowment funds amounting to $804,709,000. Twenty had net gains and the rest charged off net losses of principal. The losses charged off amounted to $8,278,654, or 1.03 per cent of the principal. Gains amounted to $4,494,656, or 0.56 per cent of the principal. The net loss on all funds reported was $3,783,998, or 0.47 per cent of the principal. The largest loss reported was $1,142,987. The largest gain reported was $617,813.

Rate of Income Earned

Table VIII shows that during the year 1940 there was considerable improvement in the rate of return earned by institutions. In 1939 approximately half of the institutions that had previously been earning 4 per cent or better fell below that figure. In 1939-40 the reverse was true; about twice as many institutions earned more than 4 per cent on their endowment funds than in 1939. One institution earned at the rate of 6.95 per cent, while another earned only 2.30 per cent; these extremes, however, were the result of rather unusual circumstances.

In Table VII it will be noted that the rate of return decreased in the eastern section of the country from 1939 to 1940, while it increased in all others. The actual average rate of return earned by all institutions included in the study was 4.06 per cent for the

year ended June 30, 1940. This compares with 4.03 per cent for 1939, and 4.23 per cent for 1938. The rate earned in previous years by a smaller group of institutions will be found in Table I.

No significant differences in trends of return or diversification were found that are ascribable to type of control, that is publicly controlled as contrasted with privately endowed institutions.

Ratio of Market to Book Value

Ninety-three institutions furnished market values of bonds, preferred stocks, and common stocks. Comparisons of mortgages and real estate were omitted. The total funds show (Table IX) a ratio of 89.1 per cent, as compared with 91.5 per cent on June 30, 1939. In several institutions the market value exceeded the book value on June 30, 1940.

III. COMMON STOCK HOLDINGS

THE INSTITUTIONS were not asked to submit lists of the securities included in their portfolios. However, printed reports as of June 30, 1940 were examined in some detail, and it was found that approximately 650 different issues of common stocks were included. This represents a very wide diversification for the list as a whole.

The most popular issues, with the approximate number of shares and the number of institutions holding the stock, are as follows:[1]

	Number of institutions	*Number of shares*
AUTOMOBILES		
Chrysler Corp.	9	12,000
General Motors Corp.	18	62,000
BANKS		
Bankers Trust Co.	11	24,000
Central Hanover Bank and Trust Co.	10	8,700
Chase National Bank of New York	12	23,000
First National Bank of New York	10	710
Guaranty Trust Co. of New York	13	6,800
CHEMICALS		
Air Reduction Co.	10	39,000
Allied Chemical and Dye Corp.	9	8,400
E. I. du Pont de Nemours and Co.	14	20,000
Monsanto Chemical Co.	9	14,000
Union Carbide and Carbon Corp.	17	45,000
CONTAINERS		
American Can Co.	12	15,000
Continental Can Co.	11	22,000

[1] This is not a recommended list of securities. It is merely a report of securities that are held by colleges and universities.

	Number of institutions	Number of shares
Electric Manufacturing		
General Electric Co.	18	105,000
Westinghouse Electric and Manufacturing Co.	10	6,500
Farm Equipment		
International Harvester Co.	11	30,000
Foods		
Corn Products Refining Co.	10	13,000
National Biscuit Co.	10	30,000
United Fruit Co.	10	15,500
Household Products		
Procter and Gamble Co.	11	25,000
Insurance		
Hartford Fire Insurance Co.	8	16,000
Phoenix Insurance Co.	10	13,000
Mining		
International Nickel Co. of Canada	14	44,000
Kennecott Copper Corp.	14	32,000
Office Equipment		
International Business Machines Corp.	9	3,000
Paint		
Sherwin-Williams Co.	9	7,800
Petroleum		
Continental Oil Co.	8	20,000
Socony-Vacuum Oil Co.	13	145,000
Standard Oil Co. of California	13	78,000
Standard Oil Co. of Indiana	13	21,000
Standard Oil Co. of New Jersey	19	100,000
Texas Oil Co.	10	35,000

	Number of institutions	Number of shares
PHOTOGRAPHIC SUPPLIES		
Eastman Kodak Co.	13	86,000
RAILS		
Atchison, Topeka and Santa Fe Railway Co.	12	14,000
Chesapeake and Ohio Railway Co.	12	27,500
New York Central Railroad Co.	8	14,000
Norfolk and Western Railway	8	4,600
Pennsylvania Railroad Co.	10	20,000
Pullman Incorporated	9	12,000
Southern Pacific Co.	10	11,000
Union Pacific Railroad	15	5,800
SHOES		
United Shoe Machinery Corp.	8	19,000
STEEL		
United States Steel Corp.	8	5,500
STORES		
J. C. Penney Co.	10	14,000
Sears, Roebuck and Co.	9	15,000
F. W. Woolworth Co.	9	21,000
TOBACCO		
Liggett and Myers Tobacco Co.—B	11	14,000
R. J. Reynolds Tobacco Co.—B	10	19,000
UTILITIES		
American Telephone and Telegraph Co.	16	45,000
Boston Edison Co.	8	7,500
Commonwealth Edison Co.	8	28,000
Consolidated Edison Co. of New York	8	11,000
Consolidated Gas, Electric Light and Power Co. of Baltimore	11	18,000

It will be noted that aviation, automobile equipment, building equipment, drugs, finance companies, glass, gold, machinery, non-alcoholic beverages, packing houses, radio, sugar, and textiles are a few of the industries which are missing from the above list of favorites.

Only one college report divided securities by industries, and this would seem to indicate that sufficient study is not being given to this phase of diversification.

IV. INVESTMENT POLICIES

In reviewing the investment portfolios of colleges and universities it is at once apparent that there is a wide spread in different types of holdings. This is not always due to a well-defined and carefully considered investment policy, but in many cases is the result of conditions over which the institution has no control, such as large gifts of closely held stock, legal conditions in gifts and bequests, and other factors. One business officer sums up the situation in this manner:

> I am always conscious of the fact that there are individual items and local conditions involved which make it difficult to present a picture which is exactly comparable with the figures that may be made up by other institutions. For instance, there are a number of items among our investments which have come into our list by gift. They include bonds, preferred and common stocks, and real estate. If we had started at some given time with a stated number of millions to invest, our investment portfolio would probably look quite different. Whether it would have been any better it is hard to say. In other words, the present status of our portfolio has been determined, to some extent, not by judgment, but by that with which we had to work.

A poor portfolio, however, cannot always be excused for the reasons stated, because in some states trustees are encumbered by law with the duty of reviewing such gift securities and disposing of them if they are not in accordance with certain investment ideals.

Investment Committees

Institutional business officers were asked to comment on policies of their investment committees which might be of interest to others.[1] These officers were practically unanimous in saying that especial emphasis is being placed on diversification. A large endowed institution stated:

[1] No attempt is made in this bulletin, however, to recommend policies which should be followed.

We have gradually increased our percentage of investments in common stocks, feeling that perhaps the difference in yield between this type of investment and the highest grade bonds is too wide at the present time. An equally obvious fact is that our percentage of bonds has continued to decline, due to our policy of not replacing called bonds with high-grade, low-coupon, long-term issues. The increase in our income rate during the past year was due principally to larger dividends from common stocks.

Another officer gave an outline of policies followed over the past five years, which may be of interest. He stated that at the beginning of this period he undertook to increase amounts of shorter maturity bonds, and by the same token limit percentages of long-term bonds and preferred stocks. He found it necessary to reverse this policy as to preferred stocks, chiefly because the institution needed the income and had gone further than originally contemplated in percentages of short-term bonds. He commented as follows:

We also undertook to decrease our railroad bond holdings by the sale of marginal and low-grade securities at what we considered desirable prices. You will note that our percentage has been decreased from about 40 per cent in 1934 to about 15 per cent in 1940. We also adopted a policy of increasing common stock investments from about 5 per cent at the earlier date to some 25 to 30 per cent in order to protect purchasing power of future income, and in the hope of recovering certain inevitable losses from other investments. In addition we had in mind capital appreciation under certain conditions. Our present policy is to purchase high-grade, medium-term (ten to fifteen year) maturities, although we may have gone too far in this direction. Our portfolio has a high percentage of bonds maturing in ten years or less.

A business officer in Ohio wrote:

Our big problem is that we have no well-defined investment program or policy. We merely have a meeting of the committee and decide on the purchase of issues suggested by the various members.

As if in answer to this comment, a business officer in Pennsylvania stated:

Three years ago we engaged the services of a New York investment counsel. Our experience has been very satisfactory. Our investments have been made both with a view to safety of principal and yield. We made considerable turnover the first year in our security list, but feel that we have very much improved the list and have maintained the income.

Again from Ohio we received the following statement:

We have been giving greater emphasis to preferred and common stocks than we have to bonds. Consideration of bonds has been largely limited to maturities of ten years or less, although we have not necessarily followed that rule rigidly. In looking for a means of raising our income yield, we have favorably considered high-grade preferred stocks, many of which are issues of comparatively local companies with which we are personally familiar. When it has been possible to secure issues with convertible provisions without lowering our investment standard, we have sought to do so. We have also sought out common stocks of companies with little or no debt and with growth possibilities. Our interest has been confined chiefly to industrials, and within that broad field more particularly the chemicals.

Our holdings of cash and short-term governments have amounted to approximately 7.5 per cent of our entire endowment fund assets during the past two years. I might qualify this by saying that in the administration of our securities pool, which has been built up entirely of new investment standards over the past six years, we have during the past two years maintained an even greater cash position, between 10 and 15 per cent most of the time.

Most officers state that they are continuing to buy equities. Most guaranteed first-mortgage bonds have been paid off and this money has been placed in common stocks. A large eastern endowed university commented:

We have steadily reduced our holdings in railroads, bonds, and stocks; somewhat increased our real estate holdings, largely in properties leased to nationally known chain stores, and have temporarily increased our holdings in United States government bonds awaiting further developments.

A New England college states:

> We have been maintaining a position of cash or its equivalent of 13 per cent. This represents largely the amount which we expect to reinvest at the appropriate time in high-grade bonds, of which we have only a very small amount, such bonds as we do hold having been classified by us as credit bonds. We aim to carry 50 per cent in common stocks, a classification in which we include certain low-grade bonds and preferred stocks as equities. We have taken this position to avoid freezing a substantial market depreciation, a problem which has been with us for over ten years, and with which we have made some headway. Our theory is that equities afford a necessary hedge against inflationary tendencies, while uninvested cash gives us a market protection in the event of further deflation.

One institution in Pennsylvania expressed a rather contrary view, when it stated:

> Some time ago our trustees ruled against any serious investment in common stocks. They directed that investments should be continued in bonds, mortgages, and debentures, with permission to purchase preferred stocks if desirable. The practical result has been a very much decreased rate of return.

The treasurer of a large endowed university in the Far West states that:

> . . . during the year the board of control have continued their program of investing new money approximately 75 per cent in high-grade long-term bonds, 15 per cent in industrial common stocks which have long dividend records, and 10 per cent in high-grade preferred stocks. These are percentages of the total investment in bonds and stocks, and the percentages would be lower when considering the investment account as a whole and taking into account mortgages, real estate, and other items. The mortgage and real estate accounts are being steadily reduced.

Real Estate and Mortgages

A great deal of real estate was acquired during depression years through default in mortgage loans. In self-defense the colleges have been compelled to acquire these properties in satisfaction of debts. It is to be regretted that the figure is only just beginning to

swing downward. In portfolios of life insurance companies there has been a steady decline since 1936. This may be interpreted as meaning that the life insurance companies have been more successful in anticipating this situation.

In portfolios of educational institutions we find large amounts of mortgages and real estate which were acquired as gifts. For good reasons these are retained in the portfolios, either temporarily or permanently, but are not to be construed as what the institutions would purchase as part of their investment policies. The colleges in this respect find themselves in the same situation as the life insurance companies which have to provide in their policy contracts for the granting of policy loans, and this type of investment is not acquired as a direct result of investment programs. In certain sections of the country, particularly in the vicinity of large cities, certain types of low-rental housing projects have been undertaken. These have required special legislation and should be considered as a separate type of investment.

A number of institutions have formed companies to operate and hold title to real estate in large cities and other off-campus locations. This real estate was in most cases received under foreclosures of mortgages. The assets carried on the balance sheet represent the aggregate investments in stocks, mortgages, notes, and advances to these companies, and include net losses on sales of properties, foreclosure expenses, taxes, and the like. In some cases rather exorbitant fees are paid to the operating company for servicing these properties.

V. SHOULD ENDOWMENT FUNDS BE INVESTED IN STUDENT RESIDENCE HALLS?

A QUESTION frequently presented is this: Has there been any change in attitude on the part of colleges and universities toward investing endowment or other funds in residence halls? With few exceptions, business officers expressed themselves as strongly opposed to this policy. One officer said:

> I think there is a real danger in this policy because of the possibility of habits being developed of investing your own funds too extensively in your own plant, rather than in outside investments which are independent of the fortunes of your own institution.

A large endowed institution which has had a successful return from its investments in dormitories stated:

> We have found our investment in dormitories to be very satisfactory, but we would not advise other institutions one way or the other. There are too many factors involved which make generalizations dangerous. In any event, we feel that if such an investment of endowment funds is made, certain precautions are necessary, particularly that adequate provision for depreciation should be made, that the properties should be so designed and operated that they yield their expenses, including the above-mentioned depreciation, and a reasonable return on the investment. Investment in such properties and other properties subject to the same influences should not be out of line with the total investments.

Two other institutions reported investment of institutional funds in dormitories on a self-liquidating basis to the full extent of the net of their operations, and charging a fixed interest of 4 and 4.5 per cent a year respectively. Another institution reported satisfactory results with one building, and losses on three others. The paying venture was of the proper size and design and appealed to the students; the others were unable to absorb overhead unless filled to capacity. The consensus is strongly and emphatically against investment of endowment funds in residence buildings. It would

seem, therefore, that any contemplated plans, to be sound, should provide for rather rapid amortization.

One state university reported that it had used some securities to build a dormitory. A fixed interest rate will be paid on the investment, and the debt will be amortized at a fairly rapid rate. It was felt that a higher return could be obtained and the institution served to better advantage by so investing its funds.

An endowed institution in the central states reports that while its trustees would have regarded investing endowment funds in dormitories as an unwise procedure a decade ago, it has viewed with alarm the continued decline in interest rates, the expectation of inflation, and other disturbing factors, and has authorized the investment of endowment funds in a group of dormitories. The investment is to provide 3 per cent interest and amortize the principal in thirty-one years. One of the determining factors in making this decision was the possibility of maintaining student enrollment.

The great majority of institutions have had such poor results from investments of endowment funds in dormitories that such financing should not be regarded as an answer to the problems involved.

VI. INVESTMENT PLANS OF SOME LARGE ENDOWED INSTITUTIONS

At a recent meeting of the Eastern Association of College and University Business Officers, the investment methods of Harvard and Yale, two of the largest endowed institutions, were explained by the financial officers of these institutions. In some respects the two plans differ greatly. The Yale plan for taking care of variations in the prices of equities is in the nature of a thermostatic control. When the plan was established, that portion of the portfolio which was to be guided by it was made up of 70 per cent fixed-income securities and 30 per cent equities. Standard Statistics averages of 90 stocks are used as a yardstick. The average stood at 100 when the plan was inaugurated. If through market appreciation the percentage of equities rises to 40 per cent, enough equities are automatically sold and the proceeds invested in income securities so as to shift the ratio to 65 and 35 per cent. One of the distinct advantages of this plan is that it avoids argument as to the relative merits of one particular stock over another.

A plan in operation at Vassar College, and similar in principle to the one used at Yale, is described in detail in Appendix C. The Vassar plan is based on the Dow-Jones Industrial Average. This plan is published because we think it will prove of interest to readers of this bulletin. It is not presented as a recommended plan of the Financial Advisory Service. It is not our policy to offer any investment service. As a matter of fact, it is very desirable that more than usual care be exercised, and that competent and expert guidance be secured, in case any institution undertakes to make extended investments in common stocks and highly speculative investments. We are grateful, nevertheless, to the authorities of Vassar College for the opportunity of bringing their plan to the attention of other institutions.

Harvard has no such rigid plan. It believes that in the light of such rapidly changing conditions as we are faced with today any

rigidity may prove dangerous. In other words, they do the best they can from day to day under existing circumstances. About 90 per cent of Harvard's investments are pooled. One-third of the portfolio is invested in common stocks, and 5 per cent is held in cash. There are no government bonds in the portfolio. Real estate and mortgages make up 5 per cent of the total. Harvard is dependent upon endowment for 50 per cent of its income for educational activities, and therefore would be affected to a very great extent by any further curtailment of income from this source. The only thing rigid about Harvard's plan is that it scrupulously endeavors to carry out the wishes of its donors.

VII. POOLING INVESTMENT COUNSEL

Many inquiries have come to the Financial Advisory Service as to the possibility of establishing a central office for investment counsel. At several meetings of the Conference of Trustees of Colleges and Universities, held at Lafayette College each spring, attempts have been made to foster some plan of pooling investment counsel. The main purpose of the plan was to provide advice to small institutions which say they cannot afford such service. The plan failed because the trustees did not feel that they had sufficient authority to depend on such an outside agency. It was felt that the plan would be successful as long as the advice proved beneficial. As soon as a few errors crept in, it would bog down under criticism. The idea still persists, however, and only a few months ago Eugene Meyer, a former governor of the Federal Reserve Board, in speaking before the Eastern Association of College and University Business Officers, stated that the colleges should have the most expert financial advisers the country affords. Obviously it is impossible to find one for each institution, because only a few first-rate financial counselors exist. He further stated:

> You should make provision for some common handling of your capital funds or at least part of them. If you study the records of investment policies and practices of your institutions, the results would show you where the most skillful management exists. It seems to me it should be possible to obtain for your whole group the services of the men, organizations, and methods that have secured the best results in this field.

It does not seem likely that any solution may be found in the immediate future. The responsibility of the trustees of each institution for safeguarding the funds entrusted to it cannot be lightly passed on to any other agency. The idea seems to have been thoroughly explored and the consensus is that it is not practical. There is always hope, however, that a solution will ultimately be developed.

VIII. CONCLUSION

There has been considerable improvement in the rate of return earned on endowment funds during the year 1939-40. It is quite evident that endowed colleges as a whole are giving more earnest attention to their investment problems today than they did in more prosperous years. It should be mentioned, however, that the subject of investments has been on the program of practically every meeting of college trustees and financial officers held during the past twenty-five years.

In spite of different points of view, and after making due allowance for honest errors of judgment, it can still safely be said that the healthy condition of most institutional portfolios depends in large measure upon the amount of time, energy, and enthusiasm displayed by those responsible for them. This is amply illustrated in the case of the large eastern endowed institution which has been particularly fortunate with its mortgages. It has adopted the policy of investing in home mortgages, mostly in new homes, on a monthly payment plan. The excellent record, the high rate of income, and the absence of foreclosures all bespeak most painstaking and persistent supervision. Similar results have been obtained in other institutions with real estate, which all goes to prove that the ability, resourcefulness, and inclinations of the individuals in charge have more to do with the income yield than any investment formula.

The administrators of endowed colleges everywhere are discussing what effect the low tuition rates and well-equipped government-financed plants of publicly controlled institutions will have upon the private colleges, with their higher tuition and less well-equipped plants. Times may change and demands on the tax dollar may force economies in publicly controlled colleges that we cannot now foresee. Increased taxation for parents, among other causes, may counterbalance any advantages which publicly controlled institutions may now seem to enjoy.

Loss of income from tuition (due to decreased enrollment) and

further declines in endowment income, the two major sources of income of the endowed college, do not present a very optimistic outlook, especially in these dark days of preparedness and war, when each hour makes any judgments concerning the future most hazardous.

In spite of many dire predictions as to the perils faced in financing endowed colleges, it is obvious that many of the problems are psychological as well as economic. True, many of the inadequately financed and improperly staffed institutions will pass out of existence, but the great majority of the well-established institutions will rise to the occasion and find ways and means to solve these problems. They have been preparing over a long period of years by improving methods of business management, and are as keenly alert to the problems of the future as it is possible for any group to be.

Appendix A

LISTS OF INSTITUTIONS

List I

45 INSTITUTIONS[1]

Alfred University
Baldwin-Wallace College
Bethany College (Kansas)
Bowdoin College
Brown University
Bryn Mawr College
Carnegie Institute of Technology
Carroll College (Wisconsin)
Catholic University of America
Columbia University
Converse College
Dartmouth College
Davidson College
Dickinson College
Franklin and Marshall College
Hamilton College
Hampton Institute
Harvard University
Haverford College
Knox College
Lafayette College
Lawrence College
Lebanon Valley College
Lehigh University
Louisville, University of
Massachusetts Institute of Technology
Mount Holyoke College
New York University
Northwestern University
Oberlin College
Pennsylvania, University of
Pittsburgh, University of
Radcliffe College
South, University of the
Southern California, University of
Stanford University
Tufts College
Tulsa, University of
Union Theological Seminary (Virginia)
Vanderbilt University
Wellesley College
William Jewell College
Williams College
Wofford College
Yale University

[1] See Table I and Charts I, II, and III for endowment of the 45 institutions given above.

List II

CLASSIFICATION OF 39 INSTITUTIONS ACCORDING TO SIZE OF ENDOWMENT FUNDS[1]

Institutions with Endowment under $2,000,000

Alfred University
Baldwin-Wallace College
Bethany College (Kansas)
Carroll College (Wisconsin)
Chattanooga, University of
Converse College
Davidson College
Dickinson College
Franklin and Marshall College
Knox College
Lawrence College
Lebanon Valley College
South, University of the
Southern California, University of
Tulsa, University of
William Jewell College
Wofford College
Yankton College

Institutions with Endowment from $2,000,000 to $15,000,000

Berea College
Bowdoin College
Brown University
Catholic University of America
Colgate University
Hamilton College
Lafayette College
Mount Holyoke College
New York University
Pittsburgh, University of
Smith College
Union Theological Seminary (Virginia)
Wellesley College

Institutions with Endowment over $15,000,000

Carnegie Institute of Technology
Chicago, University of
Dartmouth College
Harvard University
Massachusetts Institute of Technology
Oberlin College
Stanford University
Vanderbilt University

[1] These institutions furnished data required for fifteen-year period.

List III

120 INSTITUTIONS IN THE COMPOSITE STUDY

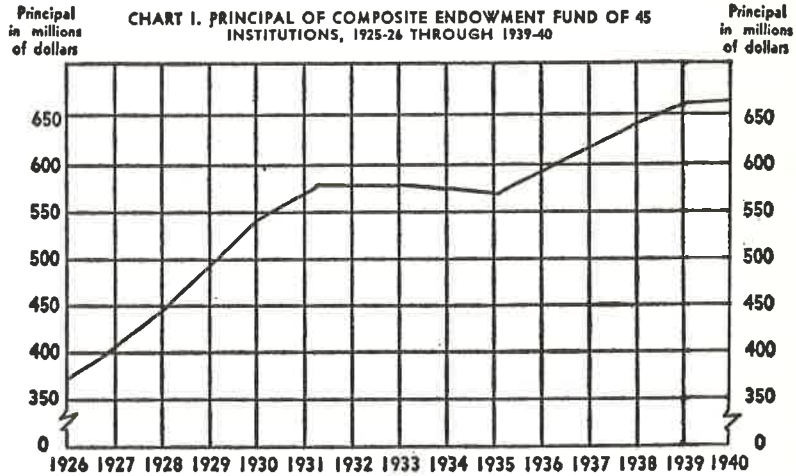
Alabama, University of
University, Ala.
Albion College
Albion, Mich.
Alfred University
Alfred, N.Y.
Allegheny College
Meadville, Pa.
Amherst College
Amherst, Mass.
Atlanta University
Atlanta, Ga.
Baldwin-Wallace College
Berea, Ohio
Barnard College
New York City
Beloit College
Beloit, Wis.
Berea College
Berea, Ky.
Bethany College
Lindsborg, Kan.
Bethany College
Bethany, W.Va.
Boston University
Boston, Mass.
Bowdoin College
Brunswick, Me.
Bradley Polytechnic Institute
Peoria, Ill.
Brown University
Providence, R.I.
Bryn Mawr College
Bryn Mawr, Pa.
Bucknell University
Lewisburg, Pa.
California, University of
Berkeley, Calif.
Carnegie Institute of Technology
Pittsburgh, Pa.
Carroll College
Waukesha, Wis.
Case School of Applied Science
Cleveland, Ohio
Catholic University of America
Washington, D.C.
Chattanooga, University of
Chattanooga, Tenn.
Chicago, University of
Chicago, Ill.
Cincinnati, University of
Cincinnati, Ohio
Claremont Colleges
Claremont, Calif.
Colby College
Waterville, Me.
Colgate University
Hamilton, N.Y.
Columbia University
New York City
Converse College
Spartanburg, S.C.
Cornell University
Ithaca, N.Y.
Dartmouth College
Hanover, N.H.
Davidson College
Davidson, N.C.
Denison University
Granville, Ohio
Denver, University of
Denver, Colo.
DePauw University
Greencastle, Ind.
Dickinson College
Carlisle, Pa.
Drew University
Madison, N.J.
Fisk University
Nashville, Tenn.

Franklin and Marshall College
Lancaster, Pa.
George Peabody College for Teachers
Nashville, Tenn.
George Washington University
Washington, D.C.
Hamilton College
Clinton, N.Y.
Hampton Institute
Hampton, Va.
Harvard University
Cambridge, Mass.
Haverford College
Haverford, Pa.
Hiram College
Hiram, Ohio
Idaho, College of
Caldwell, Idaho
Indiana University
Bloomington, Ind.
Johns Hopkins University
Baltimore, Md.
Kenyon College
Gambier, Ohio
Knox College
Galesburg, Ill.
Lafayette College
Easton, Pa.
Lawrence College
Appleton, Wis.
Lebanon Valley College
Annville, Pa.
Lehigh University
Bethlehem, Pa.
Louisville, University of
Louisville, Ky.
Macalester College
St. Paul, Minn.
Massachusetts Institute of Technology
Cambridge, Mass.
Michigan, University of
Ann Arbor, Mich.
Middlebury College
Middlebury, Vt.
Milwaukee-Downer College
Milwaukee, Wis.
Minnesota, University of
Minneapolis, Minn.
Mount Holyoke College
South Hadley, Mass.
New Hampshire, University of
Durham, N.H.
New York University
New York City
North Carolina, University of
Chapel Hill, N.C.
Northwestern University
Evanston, Ill.
Oberlin College
Oberlin, Ohio
Pennsylvania, University of
Philadelphia, Pa.
Pittsburgh, University of
Pittsburgh, Pa.
Pomona College
Claremont, Calif.
Princeton University
Princeton, N.J.
Radcliffe College
Cambridge, Mass.
Redlands, University of
Redlands, Calif.
Rensselaer Polytechnic Institute
Troy, N.Y.
Richmond, University of
Richmond, Va.
Rochester, University of
Rochester, N.Y.
Russell Sage College
Troy, N.Y.
Rutgers University
New Brunswick, N.J.
Scripps College
Claremont, Calif.
Simmons College
Boston, Mass.
Smith College
Northampton, Mass.
South, University of the
Sewanee, Tenn.
Southern California, University of
Los Angeles, Calif.

Southern Methodist University
Dallas, Tex.
Spelman College
Atlanta, Ga.
Stanford University
Stanford University, Calif.
Swarthmore College
Swarthmore, Pa.
Syracuse University
Syracuse, N.Y.
Teachers College, Columbia University
New York City
Texas Christian University
Fort Worth, Tex.
Texas, University of
Austin, Tex.
Trinity College
Hartford, Conn.
Tufts College
Medford, Mass.
Tulsa, University of
Tulsa, Okla.
Tuskegee Institute
Tuskegee, Ala.
Union College
Schenectady, N.Y.
Union Theological Seminary
Richmond, Va.
Vanderbilt University
Nashville, Tenn.
Vassar College
Poughkeepsie, N.Y.
Vermont, University of
Burlington, Vt.
Villanova College
Villanova, Pa.
Virginia, University of
Charlottesville, Va.
Wabash College
Crawfordsville, Ind.
Wake Forest College
Wake Forest, N.C.
Washington University
St. Louis, Mo.
Wellesley College
Wellesley, Mass.
Wells College
Aurora, N.Y.
Wesleyan University
Middletown, Conn.
Western Reserve University
Cleveland, Ohio
Wheaton College
Wheaton, Ill.
William Jewell College
Liberty, Mo.
Williams College
Williamstown, Mass.
Wittenberg College
Springfield, Ohio
Wofford College
Spartanburg, S.C.
Wooster, College of
Wooster, Ohio
Wyoming, University of
Laramie, Wyo.
Yale University
New Haven, Conn.

Appendix B

CHARTS AND TABLES



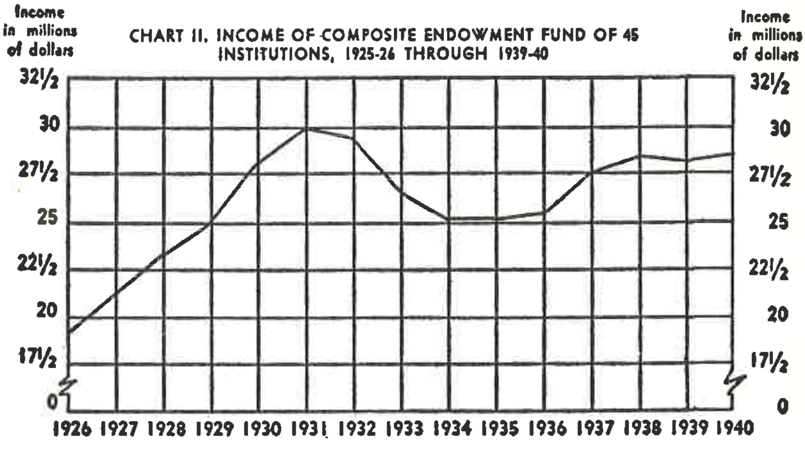


CHART III. RATE OF RETURN EARNED ON TOTAL ENDOWMENT FUND OF 45 INSTITUTIONS, 1925-26 THROUGH 1939-40

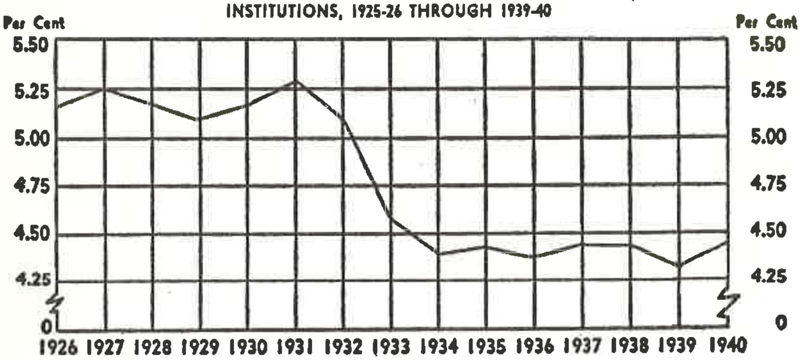


TABLE I

TOTAL ENDOWMENT FUNDS, DOLLAR INCOME, AND RATE OF RETURN OF 45 INSTITUTIONS, 1926–40[1]

Years	Principal (*In millions of dollars*)	Actual Dollar Income (*In thousands of dollars*)	*Rate of Return*
1926	$372	$19,177	*5.14*
1927	408	21,427	*5.24*
1928	449	23,164	*5.15*
1929	493	25,137	*5.08*
1930	546	28,263	*5.16*
1931	572	30,156	*5.27*
1932	575	29,255	*5.06*
1933	572	26,290	*4.58*
1934	570	25,032	*4.39*
1935	565	25,047	*4.42*
1936	588	25,661	*4.36*
1937	619	27,684	*4.46*
1938	645	28,479	*4.40*
1939	651	28,145	*4.30*
1940	653	28,924	*4.42*

[1] See Charts I, II, and III for graphic presentation of the figures shown above.

Table II

PERCENTAGE DISTRIBUTION OF ENDOWMENT FUNDS OF 39 INSTITUTIONS, 1926–1940[1]

Distribution of Investments	1926	1927	1928	1929	1930	1931	1932	1933	1934	1935	1936	1937	1938	1939	1940
Institutions with Endowment Investments over $15,000,000															
Bonds	59.7	60.3	60.6	62.0	63.3	63.0	58.7	59.0	58.4	57.8	56.3	55.6	51.1	49.3	42.2
Preferred stock	9.0	8.1	5.3	5.4	3.5	3.7	5.5	5.5	5.5	5.5	7.6	8.3	7.5	8.6	8.2
Common stock	9.2	9.1	9.4	9.9	13.2	14.0	13.0	12.7	13.4	14.7	15.9	17.4	23.3	24.8	29.3
Mortgages	10.1	10.8	13.7	12.7	7.5	7.6	12.4	11.6	11.1	9.0	6.7	5.9	4.6	4.3	4.1
Real estate	5.3	5.3	5.6	4.6	7.5	7.1	6.5	7.2	7.7	8.7	9.0	8.8	9.9	9.7	9.7
Institutional plant, and loans to other funds	5.5	5.1	4.3	4.5	4.2	3.7	3.3	3.2	3.1	3.2	3.2	3.2	1.4	1.6	1.9
Other investments	1.2	1.3	1.1	0.9	0.8	0.9	0.6	0.8	0.8	1.1	1.3	0.8	2.2	1.7	4.6
Institutions with Endowment Investments from $2,000,000 to $15,000,000															
Bonds	57.3	58.1	57.1	55.0	54.3	50.0	51.9	51.9	51.2	50.0	49.9	48.3	48.9	45.5	41.3
Preferred stock	12.4	11.7	9.4	9.7	11.1	11.4	11.7	11.1	11.3	10.6	10.7	10.8	12.3	12.7	12.6
Common stock	7.8	7.6	6.4	8.5	9.5	12.3	13.5	13.5	14.5	15.9	17.8	20.3	21.5	23.4	25.7
Mortgages	11.9	12.9	16.3	16.2	16.0	14.9	14.3	13.9	12.6	11.6	10.3	8.8	8.2	7.8	7.5
Real estate	3.6	2.6	2.7	2.6	2.9	2.9	2.1	2.3	3.0	3.8	4.0	4.1	4.8	5.2	4.7
Institutional plant, and loans to other funds	3.5	3.6	3.6	3.5	2.4	3.5	3.5	3.9	3.7	3.5	4.1	3.6	2.1	2.4	2.6
Other investments	3.5	3.5	4.5	4.5	3.8	5.0	3.0	3.4	3.7	4.6	3.2	4.1	2.2	3.0	5.6
Institutions with Endowment Investments under $2,000,000															
Bonds	28.4	29.4	27.4	29.4	30.1	28.6	28.4	26.9	26.0	27.8	26.2	23.4	20.9	19.5	18.2
Preferred stock	1.9	1.4	1.4	1.4	1.6	2.2	2.2	2.3	2.4	2.7	4.0	5.3	5.7	6.4	6.3
Common stock	1.0	2.4	5.3	4.5	4.4	5.3	5.4	6.5	7.3	7.7	6.8	8.4	11.9	13.7	15.7
Mortgages	56.5	54.0	52.7	50.4	49.2	49.1	46.7	44.3	42.1	33.2	31.7	28.7	24.4	22.0	19.7
Real estate	4.6	4.9	5.0	5.4	5.5	5.9	7.7	9.7	12.0	17.4	18.7	20.0	20.3	21.4	25.7
Institutional plant, and loans to other funds	3.2	2.8	3.1	3.2	3.8	4.6	5.4	6.3	6.0	7.1	7.3	8.3	11.2	10.8	11.3
Other investments	4.4	5.1	5.1	5.7	5.4	4.3	4.2	4.0	4.2	4.1	5.3	5.9	5.6	6.2	3.1

[1] For list of 39 institutions, see List II.

Table III

PERCENTAGE DISTRIBUTION OF ENDOWMENT FUNDS OF 120 INSTITUTIONS, CLASSIFIED BY SIZE OF ENDOWMENT, BY FIELD AND CLASS OF INVESTMENT, 1938, 1939, AND 1940

Endowment Invested (*In millions of dollars*)	Number of Institutions	Year	Utilities			Industrials			Rails			Other Bonds and Stocks			Governments and Municipals	Mortgages	Real Estate	Investments in Institutional Property	Personal Loans	Endowment Funds Loaned to Other Funds	Miscellaneous	Uninvested Cash	Total
			Bonds	Stocks Pfd.	Stocks Com.	Bonds	Stocks Pfd.	Stocks Com.	Bonds	Stocks Pfd.	Stocks Com.	Bonds	Stocks Pfd.	Stocks Com.									
Over 15	20	1938	13.7	3.3	2.2	7.1	5.1	13.5	10.5	0.7	2.0	1.8	0.6	4.3	8.0	5.5	17.6	1.0	0.7	0.4	0.5	1.5	100
	20	1939	12.8	3.4	2.6	6.9	5.1	14.2	8.5	0.7	1.8	3.5	1.1	4.2	8.6	6.5	17.4	1.0	0.5	0.1	0.7	0.4	100
	20	1940	12.6	3.9	2.7	6.5	4.8	16.4	8.5	0.6	1.6	2.3	0.1	4.1	8.2	6.0	16.5	1.3	0.4	0.2	0.9	2.4	100
6 to 15	21	1938	16.4	4.0	2.4	6.9	5.0	12.4	15.0	1.3	2.0	2.5	1.1	3.5	10.5	8.1	6.3	0.5	—	0.5	0.2	1.4	100
	21	1939	16.2	3.8	2.4	6.6	5.2	12.8	12.7	1.5	1.8	2.0	1.7	4.2	10.7	7.6	6.7	0.6	—	0.5	0.2	2.8	100
	24	1940	13.9	5.3	3.0	6.9	4.9	15.6	14.1	1.5	1.4	1.9	0.2	3.7	6.4	7.6	6.3	1.5	—	0.5	2.6	2.7	100
4 to 6	18	1938	8.2	2.5	1.9	2.8	3.3	13.9	15.0	1.2	1.8	1.0	0.5	3.5	10.2	12.8	12.9	4.2	0.6	1.4	0.8	1.5	100
	18	1939	8.9	3.1	2.3	3.1	3.2	13.8	11.4	1.6	1.8	0.9	0.3	3.9	9.9	12.2	13.5	4.7	0.6	1.5	0.9	2.4	100
	17	1940	8.0	3.3	2.8	3.8	3.4	13.8	10.2	1.3	1.6	1.5	—	3.5	8.6	9.7	13.3	7.4	0.4	1.2	1.2	5.0	100
2 to 4	24	1938	8.9	4.1	2.9	3.8	3.8	8.3	10.1	0.7	1.5	0.8	0.4	3.8	7.7	14.7	16.9	3.4	0.3	1.7	4.6	1.6	100
	24	1939	8.2	4.1	3.3	3.9	3.6	8.9	8.5	0.9	1.6	0.7	0.3	3.5	8.0	13.9	17.4	3.8	0.3	2.3	4.7	2.1	100
	28	1940	6.9	4.3	3.5	3.6	4.5	11.3	8.2	0.6	1.0	1.2	0.5	3.9	7.8	14.0	16.2	3.2	0.2	2.0	2.2	4.9	100
Under 2	27	1938	11.6	1.4	1.2	4.5	3.3	7.5	7.3	0.2	1.0	2.2	0.6	2.4	6.9	18.5	19.3	3.4	1.5	3.6	2.0	1.2	100
	27	1939	10.6	1.6	1.3	4.5	3.2	8.6	7.0	0.4	0.9	2.9	1.1	2.9	6.3	16.8	20.2	3.3	1.1	3.5	2.1	1.7	100
	31	1940	7.9	2.4	1.5	3.8	4.1	13.5	7.4	0.4	0.8	1.4	0.7	2.6	4.2	16.8	18.0	3.6	0.3	2.6	5.7	2.3	100
Total	110	1938	13.1	3.2	2.4	6.6	4.8	12.4	11.3	0.9	2.0	2.1	0.8	4.2	8.5	8.0	15.4	1.3	0.5	0.6	0.6	1.3	100
	110	1939	12.9	3.4	2.5	6.5	4.9	13.5	9.7	0.9	1.8	2.2	1.1	4.0	9.0	7.7	15.3	1.4	0.5	0.5	0.9	1.3	100
	120	1940	12.1	3.9	2.8	6.2	4.7	15.8	9.3	0.7	1.6	2.1	0.2	3.9	7.8	7.4	14.6	1.9	0.3	0.5	1.4	2.8	100

TABLE IV

GEOGRAPHICAL DISTRIBUTION AND TYPE OF CONTROL OF 120 INSTITUTIONS, AS OF JUNE 30, 1940

States and Regions[1]	No. of Institutions in Each Region	State Controlled	Privately Administered	
			Colleges	Universities
Central (Illinois, Indiana, Kansas, Michigan, Minnesota, Missouri, Ohio, and Wisconsin)	30	4	18	8
Eastern (Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, and Vermont)	53	4	29	20
Southern (Alabama, District of Columbia, Georgia, Kentucky, Maryland, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia, and West Virginia)	27	4	10	13
Western (California, Colorado, Idaho, and Wyoming)	10	3	4	3
Total	120	15	61	44

[1] The following states are not represented: Arizona, Arkansas, Delaware, Florida, Iowa, Louisiana, Mississippi, Montana, Nebraska, Nevada, New Mexico, North Dakota, Oregon, South Dakota, Utah, and Washington.

TABLE V

DISTRIBUTION OF ENDOWMENT FUNDS OF 120 INSTITUTIONS ACCORDING TO CLASS OF INVESTMENT, AS OF JUNE 30, 1940

(000 omitted)

Distribution of Investments	Endowment Invested											
	Under 2 millions		2 to 4 millions		4 to 6 millions		6 to 15 millions		Over 15 millions		Totals	
	Amount	*Per Cent*	Amount	*Per Cent*	Amount	*Per Cent*	Amount	*Per Cent*	Amount	*Per Cent*	Amount	*Per Cent*
Bonds	$8,590	*24.53*	$22,304	*27.62*	$26,347	*32.09*	$93,585	*43.06*	$323,095	*38.07*	$473,921	*37.5*
Preferred stocks	2,642	*7.57*	7,991	*9.90*	6,574	*8.00*	25,921	*11.93*	79,827	*9.41*	122,955	*9.5*
Common stocks	6,443	*18.40*	15,897	*19.70*	17,790	*21.66*	51,225	*23.71*	210,889	*24.85*	302,244	*24.1*
Mortgages (including real estate bonds and stocks)	5,884	*16.80*	11,293	*14.00*	7,998	*9.74*	16,525	*7.60*	51,472	*6.06*	93,172	*7.4*
Real estate	6,333	*18.08*	13,049	*16.17*	10,953	*13.33*	13,772	*6.34*	140,061	*16.50*	184,168	*14.6*
Investment in institutional property	1,282	*3.66*	2,606	*3.22*	6,115	*7.44*	3,214	*1.48*	11,464	*1.35*	24,681	*1.9*
Personal loans and notes	96	*0.27*	162	*0.20*	304	*0.38*	39	*0.01*	3,204	*0.37*	3,805	*0.3*
Endowment funds loaned to other funds	916	*2.61*	1,628	*2.01*	959	*1.16*	1,174	*0.54*	1,168	*0.14*	5,846	*0.5*
Other	2,016	*5.75*	1,805	*2.23*	931	*1.13*	5,604	*2.58*	7,673	*0.90*	18,028	*1.4*
Uninvested cash	813	*2.33*	3,996	*4.95*	4,157	*5.07*	5,962	*2.75*	19,905	*2.35*	34,833	*2.8*
Total investments	$35,015	*100.00*	$80,731	*100.00*	$82,128	*100.00*	$217,021	*100.00*	$848,758	*100.00*	$1,263,653	*100.0*
Income of total investments	$1,368		$3,236		$2,917		$8,538		$35,272		$51,331	
Average rate of return		*3.90*		*4.00*		*3.55*		*3.93*		*4.15*		*4.06*

TABLE VI

DISTRIBUTION OF INVESTMENTS AND RATE OF RETURN OF INSTITUTIONS HAVING THE BEST EARNING RECORDS AND THOSE HAVING THE POOREST EARNING RECORDS, YEAR ENDED JUNE 30, 1940

(000 omitted)

Distribution of Investments	Poorest Records		Best Records	
	20 Institutions Earning 2.30% to 3.19%	*Per Cent*	20 Institutions Earning 4.43% to 5.86%	*Per Cent*
Bonds	$62,793	*48.08*	$39,166	*33.92*
Preferred stocks	11,925	*9.13*	13,967	*12.10*
Common stocks	14,500	*11.10*	20,147	*17.45*
Mortgages (including real estate bonds and stocks)	5,857	*4.48*	13,739	*11.90*
Real estate	24,772	*18.98*	15,044	*13.03*
Investment in institutional property	3,571	*2.73*	5,713	*4.95*
Personal loans and notes	331	*0.25*	499	*0.43*
Endowment funds loaned to other funds	2,472	*1.89*	748	*0.66*
Other	573	*0.44*	4,205	*3.64*
Uninvested cash	3,806	*2.91*	2,219	*1.92*
Total principal of endowment investments	$130,600	*100.00*	$115,477	*100.00*
Total income received for year	$3,895		$5,697	
Average rate of return		*2.98*		*4.93*

Table VII

DISTRIBUTION OF TOTAL ENDOWMENT FUNDS, TOTAL ENDOWMENT INCOME, AND AVERAGE RATE OF RETURN ACCORDING TO GEOGRAPHICAL REGION, 1938, 1939, AND 1940

Region[1]	Total Endowment Funds			Total Endowment Income			*Average Rate of Return*		
	1938	1939	1940	1938	1939	1940	*1938*	*1939*	*1940*
Central	$215,222,801	$219,155,427	$227,286,160	$ 9,058,001	$ 8,900,817	$ 9,719,496	*4.23*	*4.06*	*4.26*
Eastern	736,084,423	747,197,088	782,719,600	31,950,519	30,745,940	31,796,558	*4.33*	*4.11*	*4.05*
Southern	170,716,999	174,203,036	175,989,257	6,808,844	6,531,456	6,705,369	*4.01*	*3.76*	*3.82*
Western	71,962,904	73,623,407	77,658,039	2,754,138	2,699,324	3,106,419	*3.83*	*3.66*	*4.03*
Total	$1,193,987,127	$1,214,178,958	$1,263,653,056	$50,571,502	$48,877,537	$51,327,842	*4.23*	*4.03*	*4.06*

[1] See Table IV for classification of states by regions, and for number of institutions in each region in 1940.

Table VIII
RATE OF RETURN EARNED IN 1938, 1939, AND 1940

Rate of Return (Per Cent)	Number of Institutions		
	1938	1939	1940
Over 6.0	1	1	1
5.5 to 5.9	1	1	2
5.0 to 5.4	2	—	3
4.5 to 4.9	16	6	12
4.0 to 4.4	42	24	44
3.5 to 3.9	23	44	31
3.0 to 3.4	15	20	14
2.5 to 2.9	6	10	9
2.0 to 2.4	3	4	3
Under 2.0	1	—	1
	110	110	120

Table IX
RATIO OF MARKET TO BOOK VALUE OF INVESTMENTS, AS REPORTED BY 93 OF THE 120 INSTITUTIONS INCLUDED IN COMPOSITE FUND, AS OF JUNE 30, 1940

Distribution of Investments	Endowment Invested					
	Over 15 millions	6 to 15 millions	4 to 6 millions	2 to 4 millions	Under 2 millions	Average
Bonds:						
United States	101.5	102.5	101.4	95.7	102.4	101.3
Municipal	103.2	101.7	93.9	90.4	105.7	101.2
Canadian and foreign	75.0	63.7	70.6	45.1	51.7	73.0
Utilities	102.5	101.2	103.0	93.6	101.0	101.9
Industrial	99.2	98.6	100.4	88.6	85.8	98.6
Rails	73.9	66.1	65.1	68.3	77.1	71.6
Others	88.2	104.7	91.5	36.2	58.2	85.6
Total	93.3	89.0	87.8	83.8	86.4	91.8
Preferred stocks:						
Utilities	97.7	98.2	90.4	90.5	95.5	97.0
Industrials	98.3	96.9	97.7	93.6	88.1	97.6
Rails	66.9	57.4	59.0	68.7	51.0	62.3
Others	92.7	78.4	—	94.2	86.6	91.0
Total	96.8	91.9	88.6	90.5	85.9	95.0
Common stocks:						
Utilities	94.0	94.9	88.6	77.0	96.3	92.7
Industrials	86.1	87.3	77.8	75.7	87.0	85.5
Rails	33.8	45.7	41.9	64.1	64.9	37.0
Others	84.3	85.8	78.6	78.7	67.0	83.9
Total	83.1	85.2	76.9	75.5	83.9	82.8
Average	90.0	88.3	83.7	82.7	85.6	89.1

TABLE X

PERCENTAGE DISTRIBUTION OF ENDOWMENT FUNDS OF 120 INSTITUTIONS, ACCORDING TO CLASS OF INVESTMENT, COMPARED WITH OTHER INSTITUTIONS

Distribution of Investments	120 Institutions in This Study[1]	Wood, Struthers Study of 30 Institutions in 1932[2]	Most Successful Fire Insurance Companies[3]	49 Legal Reserve Life Insurance Companies[4]	National Bank Trust Departments[5]	16 Common Trust Funds Reported to Congress[6]	Trust Institutions[7]	4 Large Foundations[8]	Several Church Boards of Education[9]
Bonds	40.30	49.80	33.47	56.35	48.62	33.90	50.40	55.00	34.8
Preferred stocks	10.30	7.80	11.09	1.46	—	19.70	24.10	4.50	3.6
Common stocks	21.80	10.00	39.05	0.43	32.15	32.60	25.50	40.00	21.0
Mortgages	7.70	13.50	0.60	18.97	7.08	11.50	—	0.50	15.8
Real estate	15.30	13.10	0.50	7.14	7.38	0.30	—	—	8.2
Other	4.60	5.80	15.29	15.65	4.77	2.00	—	—	16.6
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.0

[1] The total endowment funds of 120 institutions as compiled for this bulletin, $1,263,653,056.

[2] *Trusteeship of American Endowments*, Wood, Struthers and Company, 1933, a study of endowment funds of 30 institutions holding $536,000,000 in funds.

[3] Breakdown of assets of the most successful fire insurance companies, as of December 1939, furnished by Dwight C. Rose of the Investment Counsel Association, New York. Total funds, $18,350,000.

[4] Proceedings of the 33rd annual convention of the Association of Life Insurance Presidents, December 1940. $26,800,000,000 of funds.

[5] Annual report of the Comptroller of the Currency, October 1938. Total funds, $8,059,393,406.

[6] Report of Securities and Exchange Commission, "Investment Trusts and Investment Companies," August 1939. $38,695,000 of funds.

[7] Symposium on Common Trust Funds, *Trust Bulletin*, American Bankers Association, March 1941.

[8] Composite funds of four large foundations, from latest published reports.

[9] Composite unpublished figures of several church boards of education.

Appendix C

COMMON STOCK CONTROL PLAN OF VASSAR COLLEGE*

Twenty years ago the Vassar College portfolio consisted almost exclusively of real estate mortgages and corporate bonds, the majority of which were rail bonds. At that time it did not hold common stocks, with the occasional exception of specific gifts which were sometimes accompanied by the request that the securities be held.

The college reduced its rather heavy holdings of real estate mortgages to a small remainder by letting these mortgages run off at maturity before the era of mortgage distress and moratoriums took place. The reason for doing so was that we had no machinery set up with which we could adequately service mortgage investments—thus illustrating the point that the right thing is sometimes done for the wrong reason.

Our first substantial purchases of common stocks were made in substitution for unsatisfactory rail bonds which we were selling. For a time we sold rail bonds on advances in the market and bought common stocks at the same time, but we soon realized that this was an error in judgment, because the right market in which to sell the bonds was not the right market in which to buy the stocks.

Influenced by these considerations, and also by the technical factors which resulted in a price level for long-term bonds which was not only higher than any level at which bonds had ever sold before but which seemed to us exceedingly vulnerable in the event of a change in money rates, the Finance Committee tentatively set up a common stock control plan in the summer of 1938, and this was subsequently ratified in October of that year. The plan contemplated in brief that approximately one-third of the investment portfolio of the college would be made subject to the type of stock control outlined below. It would be a mis-

* Prepared for this bulletin through the courtesy of Ray Morris, chairman of the Committee on Investments and Finance, Vassar College, and published with the approval of Henry Noble MacCracken, president of the college.

nomer to call this a stock fund, because it is fully invested in common stocks only at very low market levels; as a matter of fact, it has never yet been fully invested in stocks. At high stock levels the stocks are all sold out of the fund, and it is entirely invested either in government bonds, or in relatively short corporation bonds, or in longer, high-grade corporation bonds, which are held down by their call prices.

The memorandum which was adopted by the Finance Committee on October 26, 1938 is as follows:

The following plan is suggested as a program to be adopted by the Committee on Investments and Finance in connection with the administration and management of the common stock investments of Vassar College.

If adopted, all of the common stocks (including defaulted bonds and preferred shares not currently paying dividends), together with sufficient high-grade bonds to bring the total market value (as of June 30, 1938) to about $3,000,000, would be grouped together—for investment management purposes only—to create a so-called "Stock Fund." This stock fund would be at all times invested in stocks and bonds, but at varying ratios depending upon the general level of stock prices measured by the Dow-Jones Industrial Average.

For the years 1930 to 1938 to date inclusive, the average monthly mean price of the Dow-Jones Industrial Average has been about 136.13 and accordingly, for the purposes of this plan, 135 would be assumed to be the point above which no stocks would be purchased. When the Average reached 135 on a downward trend, the stock fund would be invested 50 per cent in common stocks and 50 per cent in bonds and this commitment would be further increased as the Average declined as follows:

Dow-Jones Average	*Bonds (Per cent)*	*Stocks (Per cent)*
135	50.00	50.00
125	33.33	66.66
115	16.66	83.33
105	—	100.00

No stocks acquired during the period when the Average was below 135 would be sold until the Average reached 150 on the next upward swing. As the Average rises above this point the percentage of stocks would be reduced on the following scale:

Dow-Jones Average	*Bonds (Per cent)*	*Stocks (Per cent)*
150	62.50	37.50
165	75.00	25.00
180	87.50	12.50
195	100.00	—

The results of the operation of this stock control fund are shown as follows:

	June 30, 1938	*June 30, 1939*	*June 30, 1940*	*November 18, 1940*
Cash	$ 9,351	$ 22,383	$ 11,148	$ 9,414
Bonds (at market value)	1,550,727	1,123,327	491,095	542,123
Total cash and bonds	$1,560,078	$1,145,710	$ 502,243	$ 551,537
Common stocks and equivalent (at market value)	$1,439,922	$1,933,176	$2,634,271	$2,881,564
Total	$3,000,000	$3,078,886	$3,136,514	$3,433,101
"Capital"	$3,000,000	$3,000,000	$3,000,000	$3,000,000
Profit on sales of securities	—	47,217	173,048	182,332
Unrealized appreciation or depreciation	—	31,669	−36,534	250,769
Total	$3,000,000	$3,078,886	$3,136,514	$3,433,101
Percentage increase or decrease from June 30, 1938		2.60	4.60	14.40
Dow-Jones Industrial Average	133.88	130.85	121.87	134.74
Percentage increase or decrease from June 30, 1938		−2.30	−9.00	0.60

No additions or subtractions have been made to the capital funds employed except through the accretion representing the earnings of the fund itself. It will be noted that the Dow-Jones Industrial Average, which we use as a convenient measure of the position of the market at any given time, was not very different on November 18, 1940 from the starting level of June 30, 1938, but that the fund had appreciated $433,000 during that time. This, of course, is the result of successive sales at or above the 150 level, and successive repurchases at or below the 135 level.

A study of the curve made by the weekly closings of the Dow-Jones

Industrial Average for the last forty years indicates that in sixteen of these years stocks were selling 20 per cent or more above the moving trend line of the averages, and that in fifteen of the forty years they were selling 20 per cent or more below the moving trend line. Ever since there have been security markets they have been affected by periodic waves of optimism and of pessimism. Without some sort of a plan which concentrates on the long view of the market, and more or less ignores what is happening currently, it seems to be human experience that trustees, like individuals, tend to buy stocks when they are doing well and to sell them when they are doing badly. But it requires a superhuman degree of alertness to operate a fund on that basis without shrinking it in the process. Common stocks rise to great heights and sink to great depths, and it seems obvious that if they are to be used in institutional work they should not be carried through periods of optimistic excitement, and that they should only be bought in the lower price ranges.

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